

Click here to see a list of publications and texts by Hans Abbing. Most of these can be downloaded.

Let's Forget About the Cost Disease

Hans Abbing

Paper

Work in progress

Version 050705

This text can also be downloaded from: www.hansabbing.nl

Prof. Dr. Hans Abbing

Email: info@hansabbing.nl

Hans Abbing is a visual artist and economist. He is extraordinary professor in Art Sociology at the Faculty of Social and Behavioral Sciences and the Faculty of Humanities at the University of Amsterdam (the Boekman chair).

YOUR FEEDBACK IS VERY WELCOME!! Address to Info@hansabbing.nl

Abstract

This article argues that 40 years after Baumol and Bowen laid the foundations for the cost disease theory cultural economists should make a choice. They should either stop using the term cost disease and advise art administrators and politicians to do the same or they should promote the development of an altogether new and multidisciplinary practice of applying the cost disease theory. The first choice would be based on the acknowledgment that the basic propositions and assumptions of the cost disease theory insufficiently agree with the facts and that it is often impossible to prove that the discomfort experienced by 'diseased' art companies follows from a condition of rising costs and not from other circumstances. The second choice implies that this acknowledgement is not decisive, because in this approach the researcher attempts to determine the presence and relative importance of a cost disease caused by a condition of cost increases exceeding the economy's rate of inflation next to other diseases that cause financial problems in the arts.

To demonstrate the need for making this choice 40 years after the birth of the cost disease theory, the article commences with an examination of the use of the term 'disease' and attempts to reword some existing criticism of the theory and its application in the arts. It does not add to the existing criticism, but by analyzing different interpretations of the notion of the earning gap and the assumption of constant quality, it puts some of the criticism in perspective. Also, it attempts to give some of the existing criticism a constructive twist by examining in which situations the cost disease theory can more or less safely be applied because quality is sufficiently constant. Such situations however, do not exist in the arts. It argues that given the existing practices, the success of the theory is not deserved and possibly harmful to both cultural economics and the arts. Moreover, the article examines the socio-historical context in which this theory could arise and become successful despite its shortcomings.

Introduction¹

“Believe me, you are flogging a dead horse.” This is what one of the cultural economists who earlier criticized the cost disease theory told me after he had read an earlier version of this article. Is the cost disease theory, 40 years after its birth dead? Although many respectable and influential economic theories live less long than 40 years, this certainly does not apply to the cost disease theory. It is alive and kicking. Of all the BA and MA students in my cultural studies department who had to write essays on a topic in cultural economics of their own choosing over the last four years, one out of four wrote an essay on the cost disease. All of these students either applied the theory to the arts or explained the theory at length without paying any or hardly any attention to the criticism, even though the criticism had been discussed during classes. Clearly no other theory in cultural economics receives this much attention from students.

The cost disease theory is not just a scientific theory that keeps students and a number of economists who work at universities busy and happy. Others who work at ministries and research institutes have produced and continue to produce plenty of applied research – including policy recommendations – that rely heavily on the cost disease theory. I cannot prove it but I have the impression that it is probably more than less than 10 years ago. A search on Google also bears out this observation. Finally, in discussions on art policies, the term cost disease has become widely known, also among non-economists. Art administrators and even journalists at daily newspapers use the term with ease. They know what they’re talking about and understand one another or, in any case, they pretend they do. The successful diffusion of the cost disease theory continues and its rhetoric is stronger than ever before and clearly influences art policies.

If my colleague is right in saying that the horse as a scientific theory has been shot and is officially dead, one may well ask when it died. The only occasion I can think of that something like an official death certificate may have been issued, could be in 1996 in a special issue of the *Journal of Cultural Economics*, which celebrated the 30th anniversary of the publication of Baumol and Bowen’s book *Performing Arts: The Economic Dilemma*.² However, the public message that emerged from this issue clearly had a double meaning and certainly did not look like a death certificate. On the one hand, it applauded the cost disease theory and proclaimed it to be the founding stone of Cultural Economics. Moreover, the opening article was a contribution by Baumol in

which he continues to apply the cost disease theory among others to the arts.³ On the other hand, it contained contributions by leading cultural economists that in a polite way were very critical of the cost disease theory.⁴ One could argue that these contributions killed the beast. Nevertheless, in these contributions and in the editorial commentary, there was not even the slightest hint that it may be better to just stop applying the cost disease theory in the arts. The atmosphere was one of celebration, with the journal putting the cost disease theory on a pedestal and in fact emphasizing the continuing value of the cost disease theory for the study of the arts.

Because of this double message and because the majority of the critical texts were only comprehensible for well-informed economists, the shooting of the beast in science, if it ever occurred, largely went unnoticed. In fact, the criticism on the cost disease and its possible death mainly rests on tacit knowledge among a small group of cultural economists who never made a real effort to diffuse their knowledge among the much larger groups of ‘ordinary’ economists and art administrators who apply the theory. Why have they never bothered to do so? And more importantly, even though some of the criticism has become part of at least some teaching in cultural economics, why does the cost disease theory remain such a popular theory? These are the primary questions I attempt to answer in this article.

Because these questions can only be answered through a partly socio-historical analysis, this article is less concise, crisp and ‘economic’ than the average *JCE* article. The analysis is partly sociological and partly historical. Given the purpose of the article, it does not make use of mathematical language, as has been common in the *JCE* articles on the cost disease. In spite of this difference, I am convinced that at the fortieth anniversary of the cost disease, the *JCE* is the appropriate platform for renewed discussion. After all, Baumol, the primary inventor of the theory, was very clear about wanting his theory to serve policy making. Therefore, it would be irresponsible of cultural economists not to renew a discussion on a horse that according to some of them is formally dead but in practice is very alive at its 40th anniversary.

The choice of the term ‘disease’ in ‘cost disease’ serves rhetorical purposes, which is the same that can be said regarding the choice of any other scientific term. The medical term ‘disease’ is used here in a metaphorical sense. Therefore, Section 2 presents a non-mathematical exposition of the cost disease theory by applying a step by step medical definition of a disease to the theory of unbalanced growth. It discusses the condition that underlies the cost disease:

cost increases that exceed the economy's rate of inflation, its causes, its distressing consequences as well as the propositions and assumptions and the empirical tests of the theory. Section 3 discusses the propositions of the theory with respect to developments in technique, labor intensity, and wages in the arts and elsewhere and the assumption of cost being inevitable. It also discusses the possibility that cost increases that are diagnosed as a cost disease more likely represent an inefficiency or subsidy disease. Section 4 analyzes the kind of discomfort the cost disease causes in the arts. In this context, it makes a difference how the concept of the earning gap is interpreted.

Section 5 looks into the assumptions of the theory with respect to given preferences and constant quality. It examines the possibility that cost increases that are diagnosed as a cost disease sooner represent a loss-of-attractiveness disease than a cost disease. Section 6 argues that one should not reject the cost disease theory simply because the assumption of constant quality does not agree with the facts. Instead one should ask if given the research purposes, quality is *sufficiently* constant. The conclusion of Sections 6 and 7 is that both in more specific areas of the arts as in the arts in general quality is insufficiently constant to allow application of the theory. Section 8 discusses possible explanations for the ongoing success of the cost disease theory, while Section 9 argues that cultural economists made a mistake by confusing market value with aesthetic value and their own values. Moreover, what they diagnose as a cost disease can also be a supposedly-wrong-valuations disease.

Because cultural economists mainly used examples taken from the live performance of classical music to illustrate the cost disease theory, this article pays special attention to the development of classical music.

An Abnormal Condition that Causes Discomfort

In their 1965–66 discussion of the anatomy of the income gap, Baumol and Bowen did not use the term cost disease. But from 1969 onward, Baumol and other cultural economists have used the term whenever they have discussed or applied the theory of unbalanced growth.⁵ These economists have used the medical term 'disease' in a metaphorical sense. As with any other term, its choice stems from rhetorical purposes. Because the term 'disease' implies some form of discomfort or distress, people almost automatically start to think of undertaking action that will alleviate this discomfort. Baumol himself has always been clear about his purposes: he has advised policy makers again and

again to take the cost disease in the arts seriously and consider higher subsidies for the arts.⁶

In medicine, a disease is any *abnormal condition* of the body or mind with a *known cause* (or causes) that *leads to discomfort, dysfunction or distress* to the *person affected or those in contact* with the person.⁷ It follows that an abnormal condition that does not cause discomfort or whose presence implies only an increased chance of developing discomfort in the future is not a disease. An abnormal condition however, that is bound to cause future discomfort may be called a disease. The latter depends on existing conventions. Moreover, in medicine it is emphasized that considering a syndrome as a disease ultimately rests on value judgments. Such judgments are often shared among groups and depend on changing conventions in medicine and in society at large on the interpretation of 'abnormal', 'cause(s)', 'leading to' and 'discomfort.'⁸ For instance, many practitioners do not consider a syndrome a disease, if it only leads to minor discomfort much later in life.

In the metaphorical use of the term 'disease' in 'cost disease', a specific abnormal condition of an area of economic activity, for instance an area of the arts or the arts at large, is called a disease. This is the *abnormal condition* of, in the words of Baumol "cost increases that are unrelenting and cumulative and that exceed the economy's rate of inflation".⁹ The abnormal condition has *known causes*: (1) there is less technical progress in these areas than elsewhere, (2) production in these areas is inherently labor-intensive and (3) the wages in these areas rise at more or less the same rate as elsewhere.

The condition described by Baumol is hardly *abnormal*; it can apply to up to half of a country's economy and, in any case, it applies to relatively large parts of the economy. Therefore, it is not amazing that according to the prevailing conventions, economists primarily speak of a cost disease, when a *condition exists of cost increases exceeding the rate of inflation as well as the rate of cost change* (which can be positive, zero and negative) *in those areas of production that offer relatively important substitutes*. In the following I shall refer to this specific condition as the *rising-cost condition*.

The rising-cost condition represents a disease if it leads to a *problem*, i.e., *discomfort or dysfunction or distress* for the arts or areas within the arts or a specific group of arts organizations or those in contact with them. The discomfort follows from a reduction in output and/or quality, and/or it follows from an increase in the relative share of non-market income or unearned income in total earnings. The latter is referred to as a growing *earning gap*. (Whereas

the broader condition of cost increases exceeding the rate of inflation will often not lead to discomfort and thus to disease, the chance that the rising-cost condition as defined above will occur, which also involves cost increases exceeding cost change in relevant other areas of production, is likely to be higher.)

As in medicine, calling the abnormal condition a disease ultimately rests on *value judgments*. Such judgments are often shared among groups and depend on changing *conventions* in economics and in the society at large on the interpretation of 'leading to', 'cause(s)', 'discomfort', 'output', 'quality' and 'unearned income'.

Not unlike in medicine, it can not only be the arts organizations themselves (the 'patients') that are experiencing discomfort, but also *those in contact* with arts organizations, for instance, governments or delegates or the public at large. It is thinkable that the first barely experience any discomfort while the latter experience more. This is likely to be the case when arts organizations are successful at increasing their non-market income, but politicians or economists worry. Or it can be the other way around: producers experience discomfort because they have no choice but to reduce or even interrupt production, i.e., the 'patient' dies, but others remain largely unconcerned. For instance, the latter was generally the case when a huge reduction of production occurred in the non-art services offered by butlers and companion ladies. Finally, it is also possible that the source of discomfort for producers represents a source of discomfort for other groups. For instance, when groups of consumers replace specific art products with more attractive substitutes, the producers of these products end up experiencing discomfort. However, at the same time, these consumers evidently think they are better off, while some liberal economists are likely to interpret the development as healthy, because they believe that this way general welfare increases.¹⁰ It is clear that if other groups such as art lovers and politicians experience discomfort independent of their own art consumption, a fundamental disagreement on values is at stake. What is a disease for one group is a beneficial development for another.

Again, it is important to realize that the existence of the abnormal rising-cost condition does not automatically imply the existence of discomfort and thus of a cost disease. In this context it is worth noting that conventions in economics differ regarding the *period* within which the abnormal rising-cost condition must cause discomfort. As in medicine, most economists are not referring to a disease when the abnormal rising-cost condition is going to cause a person or an area of

production that functions well to experience discomfort only in the distant future. For instance, in the second half of the last century, there was an 'abnormal' condition of unrelenting and cumulative cost increases in the areas of psychotherapy and child care. They exceeded the economy's rate of inflation year after year. Moreover, the cost increases in psychotherapy also exceeded cost increases in areas of production that offer relatively important substitutes like therapies that primarily involve the prescription of pills. Nevertheless, these activities boomed. Although Baumol may have called these areas diseased, most economists would not, because at that time there was no financial problem and no experience of discomfort, neither among producers nor among 'those in contact with them'.

This difference in conventions matters in the context of this article, because the broad interpretation of the term 'disease' by Baumol who speak of a disease even when discomfort or dysfunction due to financial problems are still far off, has probably contributed to an even broader rhetorical use of the term 'cost disease' among art administrators and politicians. Unlike Baumol, administrators, politicians and even researchers often speak of a cost disease when costs increase exceed the economy's rate of inflation, while ignoring present and future developments in earnings. (This is somewhat understandable because in Baumol's original formulation of the theory of unbalanced growth, future discomfort is inevitable.¹¹) Moreover, unlike Baumol, they sometimes speak of a cost disease even when there is less technical progress than elsewhere or when labor productivity increases are less than elsewhere or when costs are rising more than the costs of substitutes. They therefore not only ignore developments in earnings, but also fail to examine if developments in technique, productivity and wages cause cost increases to exceed the rate of inflation. Both broad uses of the term 'disease' serve rhetorical purposes, but go against conventions in both medicine and economics.

It is also noteworthy that Baumol and some other economists speak of a disease when the abnormal condition implies an *increased chance* of developing discomfort in the future. Because in this case the causes are not fully known, this use of the term deviates from the dominant use of the term in medicine. More importantly, most economists do not use the term in this sense.

Furthermore, different conventions exist in economics regarding the interpretation of the terms 'earned' and 'unearned income'. When earned income is the same as market income, a situation of discomfort and a possible cost disease is more likely to occur than when earned income also includes

certain forms of non-market income. Section 4 examines various opinions and conventions with regard to the interpretation of earned income.

A number of researchers have tried to test the cost disease theory by attempting to answer the question of whether, since 1965, the abnormal condition of cost increases exceeding the rate of inflation has existed and has led to a reduction in output and/or quality and/or increase in the relative earning gap, thus causing discomfort among at least some groups. On the basis of their theory, Baumol and Bowen predicted an increase in the earning gap in the performing arts in the US of 1.5 to 3 per cent per year in the period from the mid-1960s to the mid-1970s.

One study showed that in the US on average, there was no increase in the earning gap and therefore no cost disease in the performing arts between the mid-1960s and the early-1990s.¹² Meanwhile, another study showed that Britain also experienced no cost disease during the 1970s.¹³ As far as I know, no comparable research results exist for mainland Europe.¹⁴ However, in the post-war period, the subsidization of performing art companies among the mainland European countries increased greatly and thus it appears that the relative earning gap must have increased as well. This development can be interpreted as an indirect proof of the existence of a situation of unbalanced growth. Moreover, this increase certainly caused discomfort for art companies and among government circles and thus a cost disease may have developed in these countries in this period.

In their explanation of the absence of a cost disease in the US and Britain, researchers usually concentrate on three main factors. First, there was greater technical progress in the performing arts than Baumol and Bowen had assumed. Second, wages rose less than elsewhere. And third, earned income increased more than expected and therefore the relative earning gap did not increase. The first two factors imply that the abnormal rising-cost condition was absent or only present in a mild form and the last that this condition did not cause discomfort.

As noted, the abnormal rising-cost condition as defined above has three *known causes*: (1) technical progress is less than elsewhere, (2) production is inherently labor-intensive, and (3) wages rise at more or less the same rate as elsewhere. These causes are propositions (or hypotheses of the theory of unbalanced growth. A further proposition is necessary for the theory's prediction that the abnormal rising-cost condition leads to an increasing earning gap or a decrease in output and/or quality to be true. Thus (4) the developments in prices, the price

elasticity and income elasticity of demand, and the development of other funds have to meet certain requirements, i.e., the impact of these factors taken together need to be such that the condition leads to the predicted effect. The theory also rests on three assumptions, i.e., basic propositions that determine how the world is perceived: (a) preferences are given (b) quality is constant and (c) costs are inevitable. Even if some of these assumptions and propositions are disproved by the facts, the cost disease theory can still be a consistent theory, but the conclusion that there is a cost disease no longer necessarily follows.

Several economists have shown that one or more propositions are denied by the facts. Acknowledging this, two routes are open to the economist. Either, he kills the horse – the theory is invalid and must be dismissed – or, he investigates the degree to which the various propositions are denied by the facts and then attempts to convince colleagues and policymakers on the usefulness or uselessness of applications of the theory in various real world situations. Because in this article I am concerned about the working of the theory in society, I take the second route. After all, almost any influential scientific theory could have been sunk on purely formal arguments right at the start.

Developments in Technique, Wages and Efficiency

This section examines the propositions and assumptions underlying the abnormal condition of cost increases exceeding the rate of inflation in the arts. Economists tend to agree that over the past fifty years in at least some areas of the arts, technical progress has been less than in other sectors, while labor-intensity remained high. Due to ever changing techniques, labor productivity continues to grow in the western economies. However, live art performances have been particularly “so to speak, technologically resistant to constant labor-saving innovation, i.e., to continuous increases in labor productivity”.¹⁵ The classic example is that of the string quartet that requires as many musicians and as much time now as it did 300 years ago.

However, in the performing arts, as Baumol and Bowen themselves have pointed out, certain technical improvements have occurred to cut costs, while not adversely affecting the basic product qualities. Examples include cost savings due to the introduction of computerized lighting techniques and booking system, among others. This phenomenon has been widely discussed in the existing literature on the cost disease.¹⁶ It is possible that Baumol and Bowen somewhat underestimated the impact of it in the traditional live performing arts scene. Nevertheless, one may well argue that in the area of, for instance, live

classical music performances, the proposition broadly agrees with the facts. However, in other areas it does not. For instance, in the area of live pop music many new techniques have been introduced that have altered the qualities of existing products, while simultaneously lowering their costs, or that coincide with the introduction of new products with lower costs.

Moreover, technical reproduction in classical music and other music had led to significantly lower costs and reduced the labor-intensity of art production. In this respect, however, William and Hilda Baumol have argued that this is a one time affair. After the shift, technical progress is back to its old low level, while over the long term, because of the handmade nature of some of the essential activities in production, labor-intensity is bound to increase. Therefore, they predicted that this would lead to financial problems and thus to a cost disease in the future in these areas of art production as well as in film production.¹⁷ Nevertheless, given the advances of digitalization, the end result of cost saving innovations is not yet in sight. Moreover and more fundamentally, it must be noted that, in this respect, the difference between these and other production processes is merely a matter of degree. As Cowen pointed out, no products exist that do not involve some residual and inevitable personal labor, including creative activities.¹⁸

The proposition that wages rise at more or less the same rate in the arts as elsewhere is largely disputed by the facts; at least thus far. Economists agree that, with some exceptions since 1965, wages have not risen at the same rate as they have elsewhere. There is evidence that in many countries artists' incomes that were already relatively low have become even lower over the last forty years.¹⁹ The researchers of the aforementioned empirical studies that show that in many countries there has been no cost disease in the performing arts over this period, generally believe that the decrease of relative wages effectively nullified the effects of decreases in labor productivity on costs caused by the lack of technical progress plus the relatively high level of labor intensity. Thus the abnormal rising-cost condition did not exist during this period and thus there was no cost disease.

However, the development of wages thus far does not mean that the abnormal condition may not occur in the near future. It seems only logical that before too long wages will rise more or less at the same rate as elsewhere. Therefore, while there is currently no cost disease, there is reason to believe it may develop in the future.

It is true that as far as regular performing arts companies that employ artists are concerned, the relative difference in incomes in comparable professions cannot increase indefinitely because of government regulations and collective labor agreements and because of competition in various more or less 'integrated' labor markets.²⁰ However, the same does not apply to the growing proportion of artists who are self-employed. Most so-called creative artists are self employed. Moreover, in many countries the number of self-employed performing artists, many of them working as freelancers, is rapidly growing.²¹ Thus, there is evidence that the average relative incomes of creative artists and even performing artists continues to fall.²² Evidently, artists are willing to work for increasingly low relative wages. (This may be because of ever higher non-monetary income expectations.²³)

Nevertheless, because artists must live and thus face a survival constraint, there seems to be some natural limit to the lowering of artists' incomes.²⁴ But this is not really the case because artists can find other sources of income, which includes social security, non-art or art-related second jobs as well as income supplied by partners. Over the last few decades, multiple jobholding among artists has continued to grow and some artists have increasingly well-paid second jobs.²⁵ This explains how a large majority of self-employed creative artists, like visual artists, composers and writers, can afford to earn very low to negligible hourly incomes.²⁶ Even a zero income from art does not have to be the limit. For instance, in the Netherlands, circa forty percent of professional visual artists 'pay' to be able to work as artists and thus have negative incomes.²⁷ (According to prevailing conventions these are professional artists because, unlike amateurs, they work within the canon of their discipline, 'experts' recognize their work, they can apply for subsidies and the taxman gives them the same reimbursements that other entrepreneurs receive.)

Given the conventions of economics, producers earn money while consumers spend money. Thus the economists may end up counting many of these artists not as professional producers but as consumers, because they spend money, even though they sell their work as well. Nevertheless, these 'volunteers', 'hobbyists', or 'amateurs' add considerably to the output of the arts. At the same time, this particular economic definition of a professional is interesting because it puts another light on the cost disease. The development of art producers who, in another sense, are also consumers and who increasingly rely on earnings from non-art and art-related jobs for their art activities adds to the possibility that a cost disease will never develop. It appears that the people of increasingly prosperous countries are willing to pay for an increased output of art products

not only through straightforward consumption and public spending, but also through the ‘consumption’ activities that add to output.

As noted, the non-market income of the traditional performing arts companies is higher in the mainland European countries than it is in the US and Britain. Therefore, while so far there has not been a cost disease in the US or Britain, the mainland European countries may well have already suffered from a serious cost disease. However, at least two alternative explanations for this difference can be offered. First, it is possible that part of the costs in mainland Europe is the result of inefficiency and could have been prevented. Second, as will be explained in the next section, it is possible that the European traditional performing arts companies produce higher quality – or at least different – products, which means higher costs.

In the theory of unbalanced growth, costs are clearly inevitable. If one of two firms producing the same product using the same techniques and operating in the same labor market, is far less efficient than the other and as a result, experiences discomfort due to rising costs, it makes no sense to say that it suffers from a cost disease. Therefore, in order to tell if the rising-cost condition exists, one first has to subtract the costs due to ‘avoidable’ inefficiency. Is it possible that in the post-war period avoidable inefficiency was relatively high among the mainland European countries?²⁸ If that was indeed the case then it was not a case of a severe cost disease, but instead an *inefficiency disease*. If this is true, the prevailing subsidy system during that period may well have contributed to the inefficiencies. What has been considered a cost disease could have been a special form of inefficiency disease: a *subsidy disease*.²⁹ The fact that many European governments meanwhile acknowledged the existence of inefficiency in the performing arts and that this was one reason for replacing the system of funding deficits by funding budgets, makes it likely that at least part of the European disease is not a cost disease but an inefficiency disease.³⁰

In practice, rising costs signal that whenever earnings do not rise correspondingly and art companies and artists do nothing about costs and/or earnings, they may end up in trouble in the long run. Action is called for. Therefore, it is also possible to view the discomfort caused by the rising-cost condition as a healthy development rather than as the source of an inevitable and incurable future disease. In this respect, rising costs can be a blessing rather than a disease. It urges companies and artists to have a good look at their costs, their marketing, the qualities of their products, and the kind of products they produce. As elsewhere in the economy, rising costs can stimulate innovation. The former

subsidy system clearly reduced the signaling effect of rising costs and this also applies, albeit to a lesser degree, to the new subsidy system. Therefore, subsidies may not only have contributed to inefficiency, but also to a degree of ‘laziness’ when it comes to the development of new products with lower costs and qualities that are attractive to a larger audience.

Worries About a Growing Earning Gap

A reduction in output and/or quality and/or an increase in the earning gap usually causes discomfort, at least for some. It follows that if the abnormal rising-cost condition is the cause of the reduction in output and/or quality and/or the increase in the earning gap, which causes discomfort, the diagnosis ‘cost-disease’ is correct. However, as the next section explains, the discomfort can also have other causes. This section discusses the possible discomfort from an increasing earning gap in more detail. Artists and art companies or those in contact with them are likely to fear that in the future it will no longer be possible to find additional funds to fill the gap. When the earning gap grows, artists and art companies or those in contact with them will sooner or later end up dismayed by the unlikelihood of finding additional funding to fill the gap in the future. Or as Baumol writes “...if the funds available to an arts organization do not grow *at a rate exceeding the economy’s rate of inflation, year in, year out*, there will be an unavoidable retrenchment either in the quantity of performing activity or its quality.”³¹

Not every increase in the relative earning gap necessarily leads to discomfort. If market income rises insufficiently and ends up not covering cost increases, it is still possible for art companies to maintain output and quality levels by covering cost increases via increased non-market income in the form of donations. Because donation increases usually do not represent a threat with respect to future output or quality, this is generally not a source of discomfort. However, in practice an increasing earning gap is often – and most commonly in Europe – financed by increased amounts of subsidies or sometimes an increased input of retained earnings. Retained earnings necessarily represent a limited resource that will eventually dry up and lead to a bleaker future. Because most governments are quite capable of financing 100% of the costs of art companies, the source in the form of subsidies is in practice not limited. However, most countries place a limit on the total costs that governments are willing to finance over longer periods. For instance, in some European countries where a relatively large and often still growing part of the income of performing art companies

comes from subsidies, governments are presently attempting to reduce this part. Therefore, an increased need for subsidies is almost always a source of discomfort.

Whether there will be an increasing need for additional funds over time depends on demand. This depends on the price elasticity and the income elasticity of demand. Given the combination of these values market income may increase, decrease or remain the same when prices go up due to higher costs and thus the earning gap may decrease or increase or remain the same. (The earning gap does not increase, when both values are unity or less or if the effect of both taken together is such that over time the negative effect of price increases on market income are compensated by the positive effect of increases in the consumer's income.

Art is a luxury good. As long as the real incomes of the relevant groups of consumers continue to rise in the western economies, spending on art will continue to increase. Moreover, art is also a so-called experience good and art consumers invested in it. There may even be a degree of addiction – beneficial or not. Generally they refuse to or are unable to substantially reduce their consumption of art when prices rise. Therefore, as many economists have discovered, higher prices lead to more spending on art even though output, for instance, in number of visits may sometimes decrease. Research on the performing arts confirms that the price elasticity of demand is generally low.³² Because price elasticity typically decreases with price, one can expect that price increases will lead to increased market earnings – particularly in the European situation with its generous subsidization and low art prices. But as economists discovered the phenomenon of market income in the so-called high arts, including the traditional performing arts, growing at the same rate or a higher one than the rate of inflation is not limited to countries with much subsidization.³³ Hence, there is no need for additional funds and in this respect governments may experience no discomfort. However, even then output can sometimes go down and in that case, art companies may experience discomfort and so may the governments who worry about output.

Over longer periods, it is not only rising income levels that matter, but also rising levels of education. Even if the shadow price of leisure time has gone up – the so-called Lindner effect – the net effect of increasing prosperity is evidently positive for the arts.³⁴ Ever since the Second World War, the joint effect of price and income developments in the US and Britain has been that spending on the high arts including the live traditional performing arts has risen considerably

more than the rate of inflation. Despite increasing prices, the earning gap did not increase, while average output, even per capita, did not decrease.³⁵ Generally, there was no cost disease. In this respect, it follows that only in those countries – primarily the mainland European countries, where the costs of live traditional performing art products increased more than the rate of inflation and more than increasing market earnings and donations – did the rising-cost condition cause a problem in the form of an increasing earning gap. Thus, if production was not inefficient in Europe, in some areas of art production there may have existed a cost disease.³⁶)

Some economists have wondered whether only market income should be counted as earning.³⁷ For most cultural economists donations and subsidies are not included in earning. Therefore, these do not directly influence the earning gap. However, there can be some rationale in the notion that donations and subsidies are also forms of earning. First, art companies often make a considerable effort to obtain or maintain current levels of donations and subsidies. In many ways they do so by offering services that donors and governments value. Therefore, one could argue that a donations and subsidies market exists. (This would imply some degree of price formation and thus, even the notion of an imaginary price and income elasticity for donor and government demand for services of art companies could make sense, although it may be primarily for explanatory purposes.)

The services offered to government bodies can come in many different forms. An important service is often the maintenance or increase of the numbers of visitors or sales to art consumers via lower prices. In this respect, it is worth noting that governments often 'pay a high price' for this type of service. Because art is an experience good and the price elasticity of consumer demand is low, high levels of subsidy result only in minor increases in consumption. Instead, these subsidies often end up in the pockets of existing groups of art consumers who typically belong to privileged social groups. Most European governments seem to be largely unaware of these re-distribution effects or tend to ignore them. However, in the 1960s and 1970s, when they attempted to 'diffuse' art, they discovered the hard way that the effect of subsidies on consumption is limited.³⁸

The latter outcome is not all that amazing because the price of traditional live art performances seldom impedes less-privileged people from attending performances. (After all, people with lower average incomes attend very expensive pop concerts.) What prevents people who like classical music and

who regularly buy classical CDs from attending is not the financial or economic price of classical concert tickets; but what I call the *social* price. Newcomers face a considerable social barrier. Given the existing behavioral conventions in the concert halls, including the relatively recent demands of silence, they often do not know 'how to behave' properly or they prefer to not behave in the 'required' ways.³⁹ They have heard from others or know from an unhappy earlier experience, that upon entering they pay a considerable additional price in the form of discomfort, and therefore they end up preferring not to go.⁴⁰

Nowadays, governments that offer subsidies and some donors as well are becoming increasingly interested in more specific services as well. They stipulate conditions for subsidization that turn a subsidy in part into a 'purchase' of specific services or qualities of existing services. Such conditions refer to dos and don'ts that directly or indirectly contribute to, for instance, national prestige, diversity in the arts, an attractive cultural climate or the participation of immigrants. One can argue that in this way governments 'buy' certain services. Or in other words, governments 'buy' external effects, collective goods, and merit goods. In this respect, it is possible to say that the European governments subsidize the arts at a higher level than the US does because they value these external effects, collective goods, and merit goods more than the US government does. Another possibility is that the American government believes that it makes little sense to spend money on external effects, collective goods, and merit goods because even without subsidies the market and the spontaneous actions of donors and volunteers ends up producing almost as much of these effects and goods.

If one were to regard all government subsidies for the arts as purchases in a fictional market for externalities, collective goods, and merit goods, it would effectively increase 'market' earnings in the arts and eliminate any earning gap. It would also imply that as long as art companies are surviving there is no cost disease. Thus the cost disease theory would lose most of its relevance. Because this article examines the application of the standard cost disease theory and because this theory does not subsume subsidies under earnings, I shall not explore this interpretation any further in this article.

A Loss-of-Attractiveness Disease: The Case of Classical Music

Decreases in output or quality levels or increases in the earning gap usually cause discomfort, at least for some. However, it is not only the abnormal rising-cost condition that can cause decreases in output or quality or increases in the

earning gap and thus justify the use of the tem cost disease. Other conditions and therefore other 'diseases' can be involved as well, either instead of, or simultaneously along with, a cost disease.

First, imagine a situation in which costs rise more than earnings and the output of an art product decreases in comparison to the output of substitutes, while the price of the art product stays in line with the price of substitutes or becomes relatively lower. In this instance, the earning gap may or may not increase. In any case, there is discomfort because output has decreased. In this case, consumers buy relatively fewer art products and more other products, not because of prices change – that would have implied a movement along the demand curve – but because they have lost interest in the art product. In other words, the demand curve of the art product shifts downward. This implies that product qualities have changed and/or new products have been introduced. Either the assumption that quality is constant is no longer valid or tastes have changed and the assumption of given preferences is no longer valid.

A situation in which the prices of certain art products stay in line with the prices of substitutes is not uncommon. For instance, to stimulate the output of traditional live performing arts and/or to prevent it from decreasing dramatically, European governments increased their subsidy levels of the traditional performing arts and thus prices showed no noticeable increase and in fact sometimes went down in relation to that of substitutes.

The situation of classical music in relation to pop music can serve as an example. Between 1965 and 1995, the average price of subsidized classical concerts in most countries rose as much or less than the average price of pop concert tickets. During this period, live classical music lost some of its market share, while live pop music increased its market share.⁴¹ However, this does not mean that consumers, who in 1965 attended classical concerts, started going in increasing numbers to pop concerts instead and in 1995 were attending pop concerts far more frequently than they were classical concerts. This scenario is extremely unlikely. For the most part, people's musical tastes do not change that much after their formative years (ages of 15 to 25).⁴² It is far more likely that the percentage of those aged 20 to 50 who regularly attended classical music concerts in 1965 has simply decreased while the percentage who regularly attended pop concerts has increased.

Some economists nevertheless argue that basic preferences are given.⁴³ Whether or not one agrees, it is clear that the assumption of constant quality does not agree with the facts. The qualities of substitutes, such as the qualities of

recordings and of live pop music has changed dramatically during that period. Recording quality has improved and media have become easier to handle. The live pop music repertoire became much larger; with countless new compositions, while existing compositions continued to be performed in ever newly evolving forms. (Unlike in classical music, pop audiences only appreciate 'covers', if they differ considerably from the performances of the same compositions by other well known performers.)

The new or ever-changing products offered by pop musicians were attractive for some and this, together with developments in other substitutes, contributed to the loss in market share of live classical music. Although, in this period the absolute output of classical concerts in terms of attendance figures per head decreased only little, they became relatively less attractive.⁴⁴ While classical music may or may not have suffered from a cost disease in this period, it certainly suffered from a *loss-of-attractiveness disease*.

It is possible that in this period classical music and/or pop music also experienced discomfort in their competition with other substitutes and that this discomfort followed from a cost disease. To examine this possibility we now imagine a second situation. As in the previous case, costs rise more than earnings and the output of the art product goes down in comparison to the output of substitutes, but this time the price of the art product rises more than that of substitutes. In this case, consumers buy relative less of the art product and more of other products. The earning gap may or may not increase. In any case, there are signs of discomfort because output goes down. The reason for the decrease in output may be solely due to higher prices – that is, a movement along the demand curve. Or it can be due to the price rise and to a loss in interest in the art product – here the demand curve shifts downwards with a parallel movement along the curve. The question then is: Was there also a loss in attractiveness, and if so, which part of the decrease in output is due to a cost disease and which to a loss-of-attractiveness disease?

Next, let us look at live music in general. In most countries during the period 1965 to 1995, the average price of live music performances rose more than the price of listening to or watching a concert (or play or other forms of entertainment) on radio or television and thus live performed music lost some of its share in the markets for evening music entertainment and evening entertainment generally, while radio and television increased their share.⁴⁵ Was this caused solely by a cost disease or was there also a loss-of-attractiveness disease involved? And if the latter is true, which disease was more important? It

is extremely unlikely that the decrease in the share of live music performances was solely caused by a cost disease, but at the same time, it is hard to tell which part of the relative decrease is a matter of costs and which of a loss in attractiveness.

It is hard to tell because the composition of live music performances changed dramatically during this period and thus quality was far from constant. As noted, pop music became far more important. Moreover, unlike classical music, pop music is performed in a variety of formats from performances in bars to stadiums and from a single performer with an acoustic guitar or a single DJ on stage to a super band offering dramatic theatrical elements such as dancers, huge video screens, and all sorts of special effects, which are common in large halls. But most of the super bands also perform minus all these extras for smaller audiences in elite music clubs, which gives their product very different qualities. It follows that during this period quality was certainly not constant for live music performance.

The same also applies to the main substitutes for live music performances. The qualities of many substitutes, like music performances on the radio or on LP and CD, changed beyond recognition, while altogether new and successful substitutes were introduced including television, video, and DVD. The quality of technically reproduced audio and visual media became much higher and endless new products were added from soaps to all sorts of competitions on television from sports competitions to classical music competitions (with often very young performers).

In the case of art products, it follows that decreases in output and quality levels and/or increases in the earning gap may be due to the abnormal rising-cost condition and/or to a loss in attractiveness independent of cost developments.

The Assumption of Sufficiently Constant Quality

Economists who discuss or apply the cost disease theory never attempt to determine which part of an increase in the earning gap and/or a decrease in the output is actually caused by a cost disease and which part is caused by a loss-of-attractiveness disease or an inefficiency disease. Some economists just dismiss the cost disease theory; others assume that quality remains constant and leave it to others to find out if this assumption is justified. The latter practice does not need to be totally objectionable, if the economists were to make it clear that there is still work to be done and that their application of the theory may make

no sense. But because they never do this, it does become objectionable. Moreover, even if they do mention certain limitations, they never warn against using their results for decision making by policymakers – on the contrary.⁴⁶ As responsible scientists, they should at least discuss the plausibility of their theory's assumption of constant quality. This has not been the case thus far.

Because this article investigates the cost disease and its applications, we must ask whether quality was or was not constant in those cases in which the cost disease has been most often applied. What does constant quality mean? If it means that throughout society existing qualities remain the same and that new products are never introduced, then the cost disease theory makes no sense. However, if it means that quality in and around the area that may suffer from a cost disease is *sufficiently* constant to be able to apply the theory in order to find out if a cost disease exists, then economists may go ahead with the application of the cost disease theory. In this case, they will have to convince policymakers and others that quality is sufficiently constant. When is quality sufficiently constant? There is no single answer to this question. The answer will vary depending on the area under examination and on the policy issues concerned.

“Is it the same thing as before, but costing more, or is it a completely new thing, so that we are no longer comparing like with like?” This is what Blaug asked in the last sentence of his ‘final comments’ on Baumol and Bowen’s cost disease theory.⁴⁷ In other words, when is quality sufficiently constant to allow the application of the cost disease theory?

Which qualities should at least be somewhat ‘constant’ to allow the application of this theory, depends on people’s preferences. For instance in 1997, Baumol noted that what mattered is that the average cast size in US theatres fell from 16.8 to 9.3 during the period 1965 to 1995.⁴⁸ He evidently prefers plays with larger casts. Whether his preference followed from his enjoyment of more people on stage or from his wish that playwrights’ instructions are followed is irrelevant. What is relevant, however, is that Baumol assumes that he is not the only person who prefers large casts. He is right, but at the same time, other people certainly prefer small casts. Moreover, given the fact that art performances are experience goods, it is quite probable that the number of people who prefer the intimacy of only a few people on stage is rapidly growing.

It is safe to say that the product quality of cast size is bound to be a quality of concern for audiences. Therefore, performances with larger casts serve as a substitute for the recently introduced plays with smaller casts and vice versa.

The same applies to plays with or without the conscientious following of the playwright’s instructions in general. By choosing certain product qualities and not others, producers compete with one another. For the economist, qualities like cast size and the following of other instructions are but two of many product qualities that may or may not matter in the choices that consumers make.

Whether qualities that consumers care for are sufficiently constant to be able to apply the cost disease theory depends on the questions posed and the policy issues at stake. These tend to be different at various levels of aggregation. That they differ follows from the fact that if there is discomfort, the nature of the discomfort and its possible cures also differ at various levels. Therefore, if the discomfort follows from the rising-cost condition and not some other condition, it is necessary to define the market of the art product and its important substitutes.

Bruce Seaman, while discussing a question that a performing company may ask before deciding on its choice of repertoire, writes: “This question and many others can only be answered after clarifying the identity of the potential competitors, i.e., defining the relevant market in terms of sufficiently close substitute products in an appropriate geographical area.”⁴⁹ Because questions vary at all the various levels of decision making, relevant markets differ as well.

In the preceding section I discussed two examples at two intermediate levels of aggregation: the situation of live classical concerts in relation to live pop concerts and of live performances in relation to other forms of evening entertainment. The first example presents a case of the often ignored competition within the arts; the second of both the competition within the arts and with other areas of production. At these levels, economists, researchers, art administrators, and politicians usually discuss the possibility of a cost disease in relation to the cost and benefits of various forms of subsidization that may serve to keep certain areas of art production alive and kicking. For instance, although in his address to the President’s Committee Baumol speaks of a cost disease in the live performing arts and in the arts in general, he does not clearly distinguish between the two. Given the fact that he pleads for more subsidies for traditional performing arts companies, he evidently is more concerned with the traditional performing arts at these two specific levels of aggregation.

If politicians want to arrest the decline in market share of live music and cost and benefits of subsidization are discussed, it clearly makes a difference of whether there is a cost disease and/or a loss-of-attractiveness disease present. In the cost-disease case, (temporary) subsidies may be given to performing arts

companies to slow down the rise in prices or, more effectively, to let them invest in the development of similar products with lower costs. In the loss-of-attractiveness case, subsidies could be given to altogether different institutions to use for the promotion of cultural education.

It became clear in the previous section that in these cases, quality is clearly insufficiently constant to be able to apply the cost disease theory. Whereas in these cases, competition between live classical and pop music performances is primarily a matter of generations developing their own distinctive tastes, the following example that refers to a case of competition for the attention of the same social and age group may well be even more convincing, because almost everybody has some experience with it.

Many older patrons of classical music concerts, who in the 1950s and 1960s attended concerts on an almost weekly basis, will have no problem admitting that nowadays they attend live concerts less often than they did thirty years ago. Are higher prices to blame? That is unlikely. As already noted, in most instances in the West, subsidies and donations helped prevent any dramatic increase in real prices. Instead, they would point to the fact that they now listen to high quality recordings at home: first LPs and now CDs. New or improved substitutes with attractive characteristics in related areas of art production quality are evidently not sufficiently constant to allow for the application of the cost disease theory.

When consumers become aware of new products and changing qualities they make up their minds about them. In the case of music consumption, many qualities are important; think for instance of the differences in sound quality between at home, in a large hall, or in a small bar; think of the presence or absence of a here-and-now experience; the permission or ban on dancing, moving around, eating, or making noise (i.e., coughing or singing along); the (im)possibility of choosing one's own time to consume, intermissions, etc. With so many relevant qualities that may be attractive to various consumers, and that are not constant, one cannot possibly make a definitive diagnosis of 'cost disease', in a situation where a rising-cost condition exists. The discomfort may well be largely due to a condition of withering relative attractiveness, whether it be temporary or permanent.

Does the same apply in case of lower levels of aggregation as well? Given the questions asked and the political issues at stake at such levels, we need to define more restricted markets. It can be expected that the lower the level of

aggregation and the smaller the relevant markets, the stricter the assumption of constant quality must be interpreted.

In the common applications of the cost disease theory, researchers often ignore close competitors and focussing primarily on more-distant competitors. Considering the policy issues that are at stake, this is often not justified.⁵⁰ Let us look at the most commonly used example for the explanation of the cost disease theory: the string quartet. It requires as many musicians and as much time on stage now as 300 years ago. Moreover, without electronic amplification, attendance during a concert by a 'chamber' orchestra remains clearly limited. The condition of continuous cost increases exceeding the rate of inflation does exist. Finally, at least some chamber orchestras experience discomfort, because they can only perform periodically or because their earning gap has increased and thus, to cover their costs they request more and more subsidies. However, symphony orchestras also apply for ever more subsidies. At the same time, budgets are limited and policymakers must distribute their funds among the various applicants.

In the 1970s, many countries saw a rapid increase in the number of ensembles and chamber orchestras (including string quartets). While some of them specialized in the performance of traditional music played on period instruments, others preferred a more contemporary repertoire. Consequently, some symphony orchestras in their funding applications argued that they needed higher subsidies, because they were suffering from a more severe strain of cost disease than the new companies in the burgeoning ensemble scene. Were they right in their claims of a more severe cost disease?

At this low level of aggregation, consumers care for quite specific product qualities. With regard to theatre we already mentioned cast size and closely following the director's instructions. Corresponding examples in music are the number of musicians on stage and the kind of instruments they play. Are the latter 'as much as possible' the same as when the work was first performed or are they the instruments the 19th century audiences listened to? People who attend chamber orchestra performances of baroque compositions on 'original' instruments apparently prefer a smaller orchestra and older instruments. (Evidently, in the realms of music and theatre, not everybody prefers *more* people on stage.)

With respect to the repertoire, in both baroque and contemporary music, the overlap between ensembles and symphony orchestras is fairly limited. (Examples of overlap are Handel's "Messiah" and Bach's "Matthews Passion")

while in the modern repertoire it is often compositions by Berio and Boulez. Presently the overlap is rapidly increasing.⁵¹) Therefore, it was not only the same products that were offered with different qualities, but also entirely different products.

In many countries, the new ensembles, playing both old and contemporary music, considerably increased their share of the live classical music market in the period 1965 to 1995. In the Netherlands, for instance, the share in the total attendance of live classical concerts of ensembles increased from a very low percentage around 1970 to more than 4% in 1980, more than 8% in 1990, and more than 16% in 1995. (The increase was largely the same for the ancient music ensembles and the ensembles playing contemporary music. Only a relative small part of their audience was new, i.e. it had not been visiting symphony concerts before.⁵² It follows that some of the regular patrons of large orchestra concerts apparently also started to attend the concerts by smaller ensembles or increased their attendance at the cost of their large orchestra attendance.

Although the ticket prices of the small ensemble concerts varied considerably, the average ticket price was generally the same as those of the symphony orchestras. Because there were fewer musicians on stage, costs per production were lower. At the same time, due to varying audience sizes, cost per patron varied considerably. The main reason why the prices of both type of concerts were largely the same was that in most countries subsidies per patron in the case of ensembles were (and are) much lower.

More importantly, between 1965 and 1995, the relative yearly increase in average ticket prices was more or less the same for both types of concerts.⁵³ At the same time, the annual increase in costs of the large symphony orchestras exceeded the rate of inflation as well as the rate of cost increases in the production of relevant substitutes including those offered by the new ensembles. In the case of the symphony orchestras the rising-cost condition clearly existed. Nevertheless, given the fact that the development in ticket prices was largely the same, the relative discomfort of the symphony orchestras must have been caused by a loss in relative attractiveness and not by the rising-cost condition. The ensemble concerts represented substitutes that were relatively more attractive than the symphony orchestras.

Even hypothetically speaking, had the ticket prices of the new music concerts been much lower than those of traditional concerts or had merely risen less, given the issue at stake, qualities were clearly not sufficiently constant to allow

statements on a possible cost disease. In this hypothetical case as well, we certainly would have had a case of loss-of-attractiveness disease with the symphony orchestras, which may very well have been the more severe disease.

(I deliberately chose the example of the ensembles because it illustrates the absurd conclusions the application of the cost disease theory can lead to. Why protect standard nineteenth-century classical music practices against successful new practices that are supposed to be even more original or authentic and that are less costly to produce?)

Finally, we have to ask whether quality is also insufficiently constant at higher levels of aggregation to allow application of the cost disease theory, for instance when developments in the arts, education or health care are discussed. What is of concern in the case of the arts is the development of costs, prices, and output in relation to other entertainment products. Thus, the relevant market is very large. Given the common research and political issues at stake at this level, the requirement of sufficiently constant quality can now be interpreted in a far less strict sense. And yet, in the case of the arts, the application of the cost disease is still out of question. The arts are far too integrated in the entertainment industry at large. They compete with many alternative goods, from television soaps, visits to non-art museums and walks in a regenerated city center. Moreover, as we shall see in the next section, the qualities of the arts themselves are also far too dynamic to allow the standard application of the cost disease theory.

The same however, does not necessarily apply to the application of the cost disease theory in the overall areas of health care and education. In these areas, Baumol also predicted and discovered a cost disease. Here the analysis mostly serves a general understanding instead of the making of specific political decisions. Qualities in health care, education and areas that offer substitutes are also continually changing. In health care, technological improvements and the introduction of new therapies mean changes in quality that matter to individual patients and their families. Meanwhile, students care about the type of contact they have with their tutors, via the internet or face to face. But when it comes to for instance the competition between average health care products and average substitutes, like more holidays or the choice of less stressful work or different eating or smoking habits, the changes in the qualities of the health care products and their substitutes could be of little consequence. The average consumer's appreciation of high quality health care or education is generally so high, that any substitutes are more likely to serve as complements than as substitutes. To

some degree, this same line of reasoning may apply to the service sector as a whole as well.

Therefore, in areas of high-level aggregation – while keeping in mind general research questions – one may fairly confidently state that quality is sufficiently constant to allow application of the cost disease theory. Therefore, if costs in these areas rise more than elsewhere and lead to an increase in the overall earning gap and people begin to worry about it, the use of the term cost disease may be justified. But the same does not apply to the arts.

Art is Always on the Move

In 1965, Baumol and Bowen found their inspiration for the development of the theory of unbalanced growth in the traditional performing arts, especially music. The traditional performing arts also played a prominent role in later discussions on the cost disease theory. In the 1960s and 1970s, these arts were in a state of *relative* inertia. At that time, the relative inertia in classical music had already been in place for at least 40 years and to a degree the relative inertia continues to the present day. Moreover, up to the 1960s, the changes in possible substitutes for live performances were not as dramatic as they have been since then. Therefore, the assumption that in 1965 the quality was largely constant within and around the area of the traditional performing arts may not have been so outrageous. Nevertheless, even 40 years is not really a long time. In the long run, art has always been in flux in western societies and periods of inertia are short lived and only appear in relatively small areas of the arts. Because the idea of inertia that underlies the cost disease theory appears to be rather persistent among cultural economists, I offer some examples of the contrary, which may help cultural economists to develop an eye for change in the arts and thus induce them to drop the standard cost disease theory.

Technological changes in the production of products which we now call art is inevitable. The arts have applied as well as initiated and invented new techniques. The people who introduced notational systems for music are now considered artists.⁵⁴ This has led to an enormous increase in productivity. The notated compositions of Bach, for instance, have been performed for literally millions of people worldwide. By comparison, medieval minstrels reached relatively small audiences.

Later on, both writers and composers profited from improved and cheaper printing techniques. Printed sheet music served not only professional

performers, but it allowed music to enter countless middle-class homes in the form of so-called *Hausmusik*. (Composers like Mozart were all for the dissemination of their music in this manner. They even wrote compositions that were easier to play. This is how they earned extra money, while their fame grew as well.)

In Western society, the introduction of new musical instruments and the replacement of older instruments continues without end. Some landmarks include the introduction of the piano forte, the electric guitar, and the synthesizer.

Visual artists developed oil paints and the technique of lithography. Oil paints became the basis of all manufactured paint for at least three centuries, while the most commonly applied present day commercial printing technique is still based on the principle of lithography.

Until approximately 1920, new performance formats and new musical instruments were continuously being introduced into classical music and the performance of works by renowned classical composers was permitted to change during their times and thereafter as well. In general, both composers and audiences applauded the changes in quality. The last major change in this realm was probably the introduction of ‘listening in silence’. Less than 100 years ago, there were still tables and chairs in the major concert halls and waiters served drinks while the orchestra played. Moreover, the repertoire consisted mainly of popular fragments of ‘serious’ classical music and popular music. (Despite protests from the majority of regular visitors, popular music gradually disappeared from the repertoire during the early decades of the twentieth century.⁵⁵)

Along with new instruments and larger halls with considerably improved acoustic amplification (i.e., ‘unnaturally’ long reverberation, much longer than that of the salons that the early composers had in mind for the performance of their compositions) product qualities changed as well. High quality recordings listened to in privacy of one’s home, where there is far less reverberation again, produced once more different product qualities. The same applies to the electronic amplification of acoustic instruments and the human voice in jazz and pop music.

The setting in which old visual art was publicly exhibited has also continued to change again and again. Museums competed with one another by changing their interiors, often beyond recognition, almost every fifty years. Because no

painting or sculpture can be isolated from its background, the qualities of the artworks changed as well.

In the performing arts, the new techniques of electronic amplification and the digital production of sound and vision (among others, through so-called video-walls) have become widespread. These techniques allow smaller ensembles and casts to perform for larger audiences. Using these techniques, existing products necessarily change while new products are introduced. The end of this development is not yet in sight. For instance, it is highly probable that before too long, many (but not all) orchestras playing classical music will begin using large video screens to show blown-up images of, among others, the expressive faces of the conductors, a quality many people presently enjoy in classical concerts on television.

A recent example of new techniques leading to new art products is the introduction of the computer in art production. Word-processing, musical notation programs (Finale and Cubase), electronic music programs, drawing programs, photo-manipulation programs (Photoshop), etc., not only increase productivity but, far more importantly, they change existing art products and enable the development of new art products.

Why Did the Cost Disease Theory Become Successful?

Cultural economists can be expected to study cost and price developments and competition in various areas in the arts and in areas that offer substitutes. The study of cost and price developments within the arts is pretty advanced by now, but as Bruce Seaman has demonstrated the study of inter-art competition is still in the developmental stage.⁵⁶ Both type of studies are essential for a proper understanding of the arts economy and making sound policy decisions. Given the relative inertia in the traditional performing arts in the 1960s, it is also understandable that Baumol and Bowen developed their theory of unbalanced growth. However, the lasting success of the theory and its applications is harder to comprehend given the fact that there has been so much change in the arts and inertia is not at all typical for the arts.

At least four factors seem to have contributed to the success of the cost disease theory. The first is that cultural economists are not average economists. They form a special group with special interests. Second, the static point of departure of neoclassical theory makes it hard to see change and incorporate its consequences into the analysis. Third, the romantic obsession of our society

with the-work-itself and its creator make us think that art works exist forever and never change. And fourth, economists like simple and 'economic' economic theories. (Such theories may even give their 'consumers' a form of aesthetic pleasure not unlike art products do.) The cost disease theory has these qualities.

Cultural economists are basically culturally involved people. They care about art and culture. These economists stuck out their necks especially at the beginning of cultural economics by affiliating with cultural topics that were untypical for standard economic research. The less well-known economists among them ran the risk of being dismissed as softies. The better-known economists however, could also augment their status in the scientific world by showing interest in the arts. To put it crudely: through their affiliation with the high arts, these 'cultured' economists showed that they were 'higher' than the typical 'dull' economist.⁵⁷

Moreover, most of us who stood at the birth of cultural economics felt guilty or ashamed of being so involved in the apparently tough economic science that focused so much on rational and calculating behavior. Our cultural 'hobby' within economics – in those early days it was a mere side-track – made us feel better. Most importantly however, we were fervent participants in various art forms either as practitioners or as fanatical consumers.⁵⁸ All of us went to live performances and art museums far more often than most economists did. We cared about art, we thought that the arts were far more vulnerable than other sectors of production and therefore we chose to do research we thought the arts could benefit from.

It was only natural that when as a result of their investigation of the performing arts Baumol and Bowen presented the first broad theory on cultural economics, the cost disease theory, we welcomed it, embraced it and started to apply it in many areas of art production. In practice, this theory seemed to serve the arts well, most of all the traditional live performing arts, in the sense that it helped art producers in their, in those often successful, quest for more subsidies and donations.

Second, the neoclassical training of the founding fathers of cultural economics contributed to the development and success of the cost disease theory. In 'classic' economics the value of goods was supposed to rest on primary qualities that inhere in an object.⁵⁹ Such qualities 'entered' the product during their creation. The value is intrinsic and does not depend on tastes or on social circumstances. This runs parallel with what can be called the traditional or standard view in art history. In the latter view aesthetic value is also intrinsic.

In neo-classical economics value is no longer absolute; it may differ from one individual to another. However, the individual is supposed to be autonomous and the social surroundings of the individual are irrelevant. Thus, his valuation still rests exclusively on the primary, intrinsic qualities of works of art. (The apparently opposite extremes of the relativistic approach of neo-classical economics and the absolute approach of classical economics meet.) Therefore, neither classical nor neo-classical economics are designed to handle the consequences of social change. Ultimately these a-historic theories cannot but assume that the quality of goods, including works of art, do not change: quality is constant.⁶⁰

The correspondence between, on the one hand, classical and neo-classical or standard economics and, on the other hand, standard art history is no coincidence. Both views stem from a classic and mechanical perception of the world. Product qualities and preferences are intrinsic, innate, and given. Strangely enough, this view connects well with the romantic view of people in what has been called the Romantic Order, which emerged two centuries ago and remains characteristic of our culture.⁶¹ One characteristic of this order is the belief in the possibility of the individual, including artists, to be independent and autonomous. As Dolfsma writes: “Behind [Gary] Becker’s cold analytical front stage, there is thus an oddly romantic backstage.”⁶²

The ongoing Romantic Order builds on the Renaissance invention of the individual. The individual has moved to the center. His abilities and preferences are not just given, they are also ‘gifts’. Even when social circumstances are taken into account, they represent constraints rather than constituting factors. This view has a normative dimension. The ‘social’ hampers the realization of people’s full potential, of their true individuality. Therefore, people and most of all artists, should be as autonomous as possible. The lack of interest in change and, more generally, the absence of a socio-historical perspective and thus the assumption of constant quality have a normative undertone that is understandable from a historic point of view but is not justifiable.

The third factor that may have contributed to the emergence and success of the cost disease theory is related to the previous factor. In our society a romantic obsession exists with the-work-itself and its creator. It makes us think that art works exist forever and never change. Because of this it is somewhat less amazing that cultural economists tend to believe that only authentic ‘originals’ count and thus quality must be constant, i.e., it *is* constant or otherwise it *should* be constant. Anything that is seen as inauthentic, like an adaptation, a

technically reproduced version, new works of art or other forms of entertainment, cannot possibly replace the original, and therefore it is unimaginable that they can serve as substitutes for consumers.

Cultural Economists Confuse Aesthetic Value, Subjective Value and Personal Value

The romantic attitude of the last two centuries contributed to two fundamental mistakes that cultural economists have made. First, like most people, they have been obsessed with ‘the-work-itself’: a static, original, and authentic artwork that exists independent of social context and historic developments. Second, looking back, it seems that cultural economists confused subjective value in the neoclassical sense with both their own values and with aesthetic value.

The belief in the extremely high quality of the original and authentic work of old composers and playwrights, of ‘the-work-itself’, is so persistent, that I need to make a few remarks that put this notion in perspective.⁶³ First, it should be acknowledged that, contrary to what the romantic obsession of our society with the-work-itself and with its creator makes us believe, art products, like actual manuscripts, scores, choreographies, visual art objects or ‘authentic’ performances do not live forever. Due to developments involving costs and tastes, the vast majority of artworks ends up in the garbage bin, most of them during the artist’s lifetime or not long thereafter. Even styles disappear forever. Thanks to this continuous clearance both physical and mental shelf space becomes available for new interesting art products. Only an extremely small selection of artworks is kept in places like libraries and museums of visual art and in the ‘museums’ of live performances of ancient music.⁶⁴ Moreover, the latter are also increasingly stored in technically reproduced formats.

In art-loving circles, technical reproductions are looked down upon as less interesting; they are certainly not regarded as original and authentic works. However, even in the more strict interpretation of a work of art, i.e., the interpretation used in standard art history, technical reproductions do not fall outside the definition of an original and authentic work of art.⁶⁵ For instance, in the case of a specific baroque composition live performances of this composition with period instruments, with standard instruments and with electronically amplified instruments as well as performances of the composition from CD, i.e., in technically reproduced form, are generally true and authentic instances of the work of art. The technical reproduction is just as much an

original as the live performance. This is the very essence of allographic art forms.⁶⁶ One performance is no more true or authentic than the other. Only when performances fail to follow the explicit instructions of the creator, do they become adaptations or falsifications rather than instances. (An example of falsification is when performers play the ‘wrong’ notes or when texts have been cut or changed. Many examples of works of art exist, however, where even ‘true’ art lovers appreciate an adaptation more than the original.⁶⁷)

The standard art historian interpretation of the artwork is wider than most people think it is, but it is still far stricter than the interpretation that is most commonly used in art sociology and contemporary art history.⁶⁸ In the latter’s interpretation, almost all adaptations and falsifications are also part of an artwork as the artwork moves in ever-changing appearances through time. In this interpretation, there is not one creator, but many creators including intermediaries and audiences produce and reproduce the work of art. The artwork cannot be separated from its social setting. A *true* work of art does not exist. Even if one were to attempt to reproduce all the circumstances of a baroque concert in the days it was composed, for instance by having it performed in the ambiance of a princely salon, asking the audience to be far noisier than contemporary audiences, letting audience members arrive in carriages etc., one could never totally reproduce the artwork the original patrons experienced, precisely because the social setting differs. Among others, we have received an altogether different musical education and live in a world with unique new problems. It makes no sense to look for the-work-itself. Barbara Smith writes “When all such utilities, interests, and particular sources of value have been subtracted, nothing remains.”⁶⁹

Second, because art-loving cultural economists generally are culturally well-informed people who listen to experts, their own valuation of high and low quality in the arts has largely coincided with aesthetic value as defined by experts. In the 1960s and 1970s, the traditional performing arts had a high value for them while, on the other hand, the then recently introduced pop music had a low value for them. They found it hard to acknowledge that average people might have different opinions given their choices in the market. Evidently they projected their own values on others and so assumed that subjective value could not possibly differ from aesthetic value and thus from their own values. If there was a problem it was an information problem. It is very likely, that some wishful thinking was involved here, in the sense that other people’s values *should* correspond with aesthetic value and thus with their own values. Their own values are superior values, their own tastes are superior tastes and others

must be taught to develop these tastes. It is not impossible that some cultural economists were more or less aware of their paternalistic attitude, but preferred to draw people’s attention to a possible cost disease instead of emphasizing the merit good character of traditional art products, because in the latter case they could be accused of paternalism.

Paternalistic or not, responsible people sometimes feel so strong about other people’s ‘wrong’ values and lack of interest in the so-called high arts that they believe that the values of the latter are harmful to themselves and/or society. Thus they experience discomfort. But their discomfort does not follow from an abnormal rising-cost condition, but from a condition that rests in valuations. Therefore there is no cost disease, but a *supposedly-wrong-valuations* disease. This type of ‘disease’ tends to be fashionable and very much a product of its age. For instance, in the 1960s, responsible people believed that the lack of interest in live classical music among the young, who at that time were turning to ‘inferior’ pop music, was harmful. While today, in places like France and the Netherlands, responsible people urge their governments to promote the active participation of youngsters in all forms of live music, including pop music. In hindsight, it turns out that behind the façade of the ‘cost disease’ we find a hidden disagreement on values. The discomfort of the cultural elites was caused by a supposedly-wrong-valuations disease and not a cost disease.

Conclusion

The cost disease theory is a simple, ‘economic’, and aesthetically pleasing theory. As a logical exercise with a distressful outcome, comparable to the Malthusian model of population growth and economic stagnation, it appeals to both researchers and policymakers who worry about the future of the arts.⁷⁰

Part of the theory’s success in Cultural Economics and among people involved in art, can also be explained by the fact that the application of the theory served a cultural elite that cared about art and thus had an interest in the subsidization of the traditional performing arts. At the same time, however, it is questionable whether in the long run the traditional performing arts have benefited from increased subsidies and donations, because the latter hindered innovation, increased inefficiency, and thus made them more vulnerable.

In spite of its success, the cost disease theory is a failure as far as its contribution to our cognition of the ‘real world’ is concerned. The most important reason is that in the arts quality is insufficiently constant to allow

proper application of the theory. (However, the same does not necessarily apply to education and health care.)

Cultural economists have applied the theory to the arts and have come to conclusions on the existence of a cost disease or the likelihood of a future cost disease in certain areas of the arts and in the arts in general. They generally did so without mentioning the possibility that their hypotheses could be wrong and without discussing the implications this may have on their conclusions. Moreover, most of the time they failed to mention, let alone discuss the possibility, that the discomfort experienced by the 'diseased' art companies or by areas in the arts may also be caused by conditions that are not related to cost developments.

The cost disease theory can be saved if economists are prepared and capable of working together with other social scientists in order to investigate the relative importance of 'economic' factors next to 'social' and 'cultural' factors.⁷¹ Thus it may be possible to arrive at necessarily crude assessments of the (probably limited) importance of the cost disease compared to other diseases, most of all the loss-of-attractiveness disease, but also the inefficiency disease, including a subsidy disease, and a supposedly-wrong-valuations disease. Given their training, it is unlikely that in the years to come economists will be able and willing to make a real effort with respect to such inter-disciplinary research. Therefore, for the time being, it is preferable to just forget about the cost disease and to ban the term 'cost disease' from the cultural economics vocabulary.

This advice does not apply to the theory of unbalanced growth. Studies in Cultural Economics on the development of costs and labor productivity in specific areas in the arts and on competition within the arts and with other areas of production are anyway useful for the understanding of the arts economy and can be relevant for policy making. Therefore, I hope and expect that when economists forget about the cost disease, they will be able to look afresh and with open minds at cost developments and competition in the arts.⁷² Only in this way can Cultural Economics contribute to the understanding of how technological developments and economic, social, and cultural factors work together in the shaping and reshaping of the arts.

Literature

Abbing, H. (2002). *Why Are Artists Poor? The Exceptional Economy of the Arts*. Amsterdam, Amsterdam University Press.

Abbing, H. (2003). Support for Artists. *Handbook Cultural Economics*. R. Towse. Cheltenham, Edgar Elgar.

Abbing, H. (2005). 'Consumentensubsidies bieden geen oplossing.' *Boekman* 17(62): 108-16.

Abbing, H. and S. J. Kagan (2007). Art, What is it Good For. An Economic, Sociological and Political Study of the Arts Economy. Forthcoming.

Baumol, H. and W. D. Baumol (1984). The Mass Media and the Cost Disease. *The economics of cultural industries*. W.S. Hendon. Akron, The Association for Cultural Economics,.

Baumol, W. J. (1973). 'Income and Substitution Effects in the Lindner Theorem.' *Quarterly Journal of Economics* 87(4): 629-33.

Baumol, W. J. (1996). 'Children of Performing Arts, the Economic Dilemma: the Climbing Costs of Health Care and Education.' *Journal of Cultural Economics* 20(3): 183-206.

Baumol, W. J. (1997). Public Support for the Arts: Why and Wherefore. Washington, President's Committee on the Arts and the Humanities.

Baumol, W. J. and W. G. Bowen (1965). 'On the Performing Arts: The Anatomy of Their Economic Problems.' *American Economic Review*, 57(3): 495-502.

Baumol, W. J. and W. G. Bowen (1966). *Performing Arts. The Economic Dilemma*. New York: The Twentieth Century Fund.

Baumol, W. J. and W. E. Oates (1972). 'The Cost Disease of the Personal Services and the Quality of Life.' *Scandinaviska Enskilda Banken Quarterly Review* 2: 44-4, Reprinted in Towse 1997.

Becker, G. S. (1996). *Accounting for Tastes*. Cambridge, Massachusetts etc., Harvard University Press.

Becker, H. S. (1982). *Art Worlds*. Berkeley, University of California Press.

Becker, H. S. (1999). *The Work Itself*. Paper presented at a conference on the sociology of art held in Grenoble in November 1999, published on <http://home.earthlink.net/~hsbecker/>.

Benhamou, F. (2000). 'The Opposition between Two Models of Labour Market Adjustment: The Case of Audiovisual And Performing Arts Activities in France and Great Britain over a Ten Year Period.' *Journal of Cultural Economics* 24: 301-19.

Blaug, M. (1996). 'Final Comments on the Plenary Session on Baumol and Bowen.' *Journal of Cultural Economics* 20(3): 249-50.

Cowen, T. (1996). 'Why I Do Not Believe in the Cost-Disease. Comment on Baumol.' *Journal of Cultural Economics* **20**: 207-14.

Cowen, T. and R. Grier (1996). 'Do Artists Suffer from a Cost-Disease.' *Rationality and Society* **8**(1): 5-24.

Danto, A. C. (1986). *The Philosophical Disenfranchisement of Works of Art*. New York, Colombia University Press.

Dimaggio, P. (1992). Cultural Boundaries and Structural Change. *Cultivating Differences*. M. Lamont and M. Fournier. Chicago, The University of Chicago Press: 346.

Dolfsma, W. (1999). Valuing Pop Music. Institutions, VALUES, and Economics. Delft, Eburon.

Doorman, M. (2004). *De Romantische Orde*. Amsterdam, Bert Bakker.

Dulken, H. v. a.o., Eds. (1988). *In ons Diakonale Land*. Boekmanstudies. Amsterdam, Boekmanstichting/Van Gennep.

Felton, m. (1994). 'Historical Funding Patterns in Symphony Orchestras, Dance, and opera Companies, 1972-1992.' *Journal of Arts Management, Law and Society* **24**: 8-23.

Foundation, F. (1974). *The Finances of the Performing Arts, Volume 1*. New York, The Ford Foundation.

Frey, B. S. (1999). 'State Support and Creativity in the Arts: Some New Considerations.' *Journal of Cultural Economics* **23**: 71-85.

Frey, B. S. and W. w. Pommerehne (1989). *Muses and Markets. Explorations in the Economics of the Arts*. Oxford, Basil Blackwell.

Goodman, N. (1954). *Languages of Art, an Approach to a Theory of Symbols*. London: Oxford University Press, 1968.

Goudriaan, R. (1990). 'Kunst en Consumentengunst. Een Economische Benadering.' *Boekmancahier* **2**: 245-62.

Haan, J. d. and W. Knulst (2000). *Het Bereik van de Kunsten*. Den Haag, Sociaal en Cultureel Planbureau.

Heilbrun, J. (2003). Baumol's cost disease. *Handbook Cultural Economics*. R. Towse. Cheltenham, Edgar Elgar.

Menger, P.-M. (1999). 'Artists labor markets and careers.' *Annual Reviews* **25**: 541-74.

Meulenbeek, H., N. Brouwer, et al. (2000). *De Markt voor Beeldende Kunst. De Markt en de Financiële Positie van Beeldend Kunstenaars 1998*. Zoetermeer, Instituut voor Economisch Onderzoek der Universiteit van Amsterdam in opdracht van het Ministerie van Onderwijs, Cultuur en Wetenschappen.

NEA (2002 (and earlier)). *Survey of Public Participation in the Arts*. Washington, National Endowment for the Arts.

O'Hagan, J. (1998). *The State and The Arts. An Analysis of Key Economic Policy Issues in Europe and the United States*. Cheltenham, Edward Elgar.

Peacock, A. (1968). 'Performing Arts: The Economic Dilemma; Review.' *Economica* **35**(February): 100-1.

Peacock, A. (1996). 'The "Manifest Destiny" of the Performing Arts.' *Journal of Cultural Economics* **20**(3): 215-24.

Peacock, A., E. Shoesmith, et al. (1982). *Inflation and the Performed Arts*. London, Arts Council of Great Britain.

Peacock, A. T. (1969). Welfare Economics and Public Subsidies to the Arts. *The Economics of the Arts*. M. Blaug. London, 1976: 18: 151-61, 1994.).

Schwartz, S. and M. G. Peters (1983). Growth of Art and cultural organizations in the decade of the 1970s', a study prepared for the Research Division. Rockville, National Endowment for the Arts, MD, Informatics General Corporation.

SCP (1987). *Muziek en Theater, 1981/82-1983/84*. Den Haag, Centraal Bureau voor de Statistiek.

Seaman, B. (2004). 'Competition and the Non-Profit Arts: The Lost Industrial Organization Agenda.' *Journal of Cultural Economics* **28**(3): 167-93.

Seaman, B. A. (2004). 'Competition and the Non-Profit Arts: The Lost Industrial Organization Agenda.' *Journal of Cultural Economics* **28**: 167-93.

Smith, B. H. (1988). *Contingencies of Value. Alternative Perspectives for Critical Theory*. Cambridge Mas., Cambridge University Press.

Smithuijsen, C. (1991). *Das erstaunliche Silentium: luisterdwang in en om de concertzaal. Boekmancahier*. III, nr.9,.

Smithuijsen, C. (2001). *Een Verbazende Stilte. Klassieke Muziek Gedragsregels en Sociale Controle in de Concertzaal*. Amsterdam, Boekmanstudies.

Throsby, C. D. and G. A. Withers (1979). *The Economics of the Performing Arts*. London: 1-34.

Throsby, D. (1994). 'The Production and Consumption of the Arts: A View of Cultural Economics.' *Journal of Economic Literature* 32(March 1994): 1-29.

Throsby, D. (1994a). A Work-Preference Model of Artist Behaviour. *Cultural Economics and Cultural Policies*. A. Peacock and I. Rizzo. Dordrecht etc., Kluwer Academic Publishers.

Throsby, D. (1996). 'Economic Circumstances of the Performing Artist: Baumol and Bowen Thirty Years on.' *Journal of Cultural Economics* 20(3): 225-40

Towse, R., Ed. (1997). *Baumol's Cost Disease. The Arts and Other Victims*. Cheltenham, etc., Edward Elgar.

Woude, A. M. v. d. (1987). The Volume and Value of Painting in Holland at the Time of the Dutch Republic. *Art in History, History in Art*. D. Freedberg and J. d. Vries. Chicago, The Getty Center for the History of Art and the Humanities.

¹ I thank Ruben van Hooff, Almut Krauss, PW Zuidhof for their comments on earlier versions of this article. The usual caveat applies.

² Baumol and Bowen (1966) 161-176, which builds on Baumol and Bowen (1965). The *JCE* issue is vol. 20, issue 3, 1996. The year before the Association of Cultural Economics International devoted its plenary session to the anniversary and a year after the publication of the special *JCE* issue, Edgar Elgar published its first large volume on Cultural Economics, a 500 page book titled *Baumol's Cost Disease: The Arts and other Victims*, edited by Towse (1997). This book consists of reprints of some of the chapters of the aforementioned book as well as more recent writings on the subject by Baumol and other cultural economists.

³ Baumol (1996).

⁴ Blaug (1996), Cowen (1996) and Peacock (1996). Also shortly after the publication of Baumol and Bowen (1966) Peacock (1968) had already formulated some fundamental criticism. There is also ample criticism in Cowen and Grier (1996).

⁵ The earliest mention of the term 'cost disease' that I found is in Peacock (1969) and the earliest use of the term by Baumol I found is in Baumol and Oates (1972).

⁶ Baumol (1997).

⁷ Encyclopedia Britannica, <http://en.wikipedia.org/wiki/disease>.

⁸ Ibid.

⁹ Baumol (1997) 3. Because this article also investigates the rhetorical use of the cost disease theory, I quote here and later in this particular text. He addresses an audience of laymen, i.e., members of the President's Committee on the Arts and the Humanities. Baumol tries to persuade the committee to advise the president to increase his support for the arts. Moreover, it is a relatively recent text and thus it shows that Baumol did not fundamentally change his mind with respect to the cost disease theory.

¹⁰ Cf. Heilbrun (2003) 100.

¹¹ In his later texts, Baumol no longer states that discomfort is an inevitable outcome of the theory of unbalanced growth. Nevertheless, although Baumol in some of his later texts emphasizes that not only at present people are willing to pay for the increasing costs of, for instance, medical care and may well be able and willing to continue to do so in the future, he maintains that such area is nevertheless suffering from a cost disease. Therefore, he continues to use the term 'disease' in a broader sense than other economists or than doctors do. Cf. Baumol (1996).

¹² One study – Foundation (1974) also cited by Heilbrun (2003) – showed that on average there was no disease from 1965-6 to 1970-71. In this period, the relative earning gap increased for symphony orchestras and non-profit theatres and fell for opera, ballet, and dance companies. Schwartz and Peters (1983) – also cited by Heilbrun (2003) – showed that in the 1970s there was on average no disease either. In that period, the relative earning gap fell considerably for ballet, modern dance, and non-profit theatre, while declining slightly for symphony orchestras, and remaining approximately stable for opera. Finally, Felton (1994) – also cited by Heilbrun (2003) – found that, with the exception of modern dance, the earning gap in the US continued to decline – at least up through to the early 1990s.

¹³ Peacock, Shoesmith et al. (1982) also cited by Heilbrun (2003).

¹⁴ Britain holds an intermediate position. Cf O'Hagan (1998).

¹⁵ Baumol (1997) 3.

¹⁶ Cf. Heilbrun (2003).

¹⁷ Baumol and Baumol (1984).

¹⁸ Cf. Cowen (1996).

¹⁹ Peacock, Shoesmith et al. (1982), Throsby (1996), Towse (1997) 103-244. The latter three contain many more references. According to Peacock, Shoesmith et al. (1982) in the 1960s in the English performing arts, artists' incomes also declined in real terms.

²⁰ According to Heilbrun (2003), the market for artistic labor is not an isolated, but a more or less integrated labor market.

²¹ For instance, Throsby (1996) and Benhamou (2000)...

²² Ibid.

²³ Abbing (2003) 113-5.

²⁴ Throsby (1994a), Abbing (2002), and Abbing (2003) discuss the survival constraint in the context of the so-called work-preference of artists.

²⁵ For instance Meulenbeek, Brouwer et al. (2000) and Menger (1999).

²⁶ Even performing art companies may get away with only compensating performing artists for their costs as is already the case with many trainee posts and temporary positions financed by the ministry of social welfare. Moreover, volunteering has also become more and more important. This is the case with many ensemble players, choir singers, and musicians in big bands, among others, who have difficulties launching their careers although they are generally recognized as artists, for instance, because they have finished their conservatorium studies.

²⁷ Meulenbeek, Brouwer et al. (2000). Although the respondents in this diachronic research had no incentive to hide unreported income, it is, nevertheless, likely that the respondents underestimated their incomes. Thus the actual percentage may be somewhat lower.

²⁸ Inefficiency always also results in different product qualities. Therefore it is possible that paying a high price in the form of much higher costs, the Europeans realized supposedly 'higher' quality levels. In this context it is noteworthy that according to Dimaggio (1992) 29 some producers of classical concerts in the early twentieth century deliberately raised cost to increase non-market funding and reduce the dependence of their concerts on the market, while so contributing to the establishment of an art circuit in classical music performances separate from the at that time still flourishing circuit of commercial classical music performances.

²⁹ Cf. Frey and Pommerehne (1989) and Frey (1999).

³⁰ Even with increases in system efficiency, the likelihood of avoidable inefficiency continues to exist. In this respect it is telling that today in the Netherlands commercial theatre producers sometimes produce the same traditional plays as non-profit companies do, but without subsidies and with much lower costs.

³¹ Baumol (1997) 6; italics are Baumol's.

³² Goudriaan (1990).

³³ Throsby (1994), Throsby (1996) and Peacock (1996).

³⁴ For a discussion on the joint effect of price and prosperity developments, see Throsby and Withers (1979). Baumol (1973) argues that the outcome of the Lindner theorem has an influence on the cost disease.

³⁵ Throsby (1994), Throsby (1996) and Peacock (1996) present data on the development of consumer spending and the income of companies..

³⁶ In the Netherlands the output in terms of visit per capita of live theatre decreased considerably 1975 and 1990. However, the output per capita of live classical music hardly decreased. (1987).

³⁷ Cf. Heilbrun (2003).

³⁸ The re-distribution of income in favor of privileged social groups is not limited to direct subsidies for the arts. It is more likely to be stronger than weaker in the case of indirect art subsidies, like tax rebates and a lower VAT rate – Abbing (2005). On the limited success of 'art diffusion' in the Netherlands, see Dulken a.o. (1988). The increase in consumption of traditional art performances in this period was not due to lower prices but to higher incomes and better education.

³⁹ Cf. Smithuisen (2001).

⁴⁰ Abbing and Kagan (2007).

⁴¹ No systematic data exist on the development of prices and attendance figures of pop concerts. I base this conclusion on interviews with directors of branch organizations in the US, France, and the Netherlands.

⁴² This is the outcome of an analysis based on detailed interviews of a large sample of Dutch inhabitants: Haan and Knulst (2000).

⁴³ Cf. Becker (1996).

⁴⁴ For instance, NEA (2002 (and earlier)) and SCP (1987).

⁴⁵ Ample research exists on the development of hours of more and less concentrated listening to radio and watching of television. For instance, NEA (2002 (and earlier)) and SCP (1987). The latter publication shows that the number of hours of art consumption on radio and television is much larger than that of live performing art (p. 99), even though presently live performing art is becoming relatively more important again (p. 26–29 and 221).

⁴⁶ The example par excellence is Baumol (1997).

⁴⁷ Blaug (1996).

⁴⁸ Baumol (1997).

⁴⁹ Seaman (2004) 183.

⁵⁰ Cf Seaman (2004) 183.

⁵¹ Many symphony orchestras have expanded their repertoires, often using fewer musicians on stage as well. This may well be due also to increased intra-art competitiveness.

⁵² The last two points and these percentages are derived from data in Bakkenist (1996) *De Noten Gehonoreerd Amsterdam*, VNME; Vereniging Nederlandse Muziek Ensembles (1999) *Spel, spelers, publiek 2001-2004*, VNME; and CBS (1974-...) Sociaal-cultureel Kwartaalbericht CBS, 's-Gravenhage. The actual percentages are probably higher, because there are only attendance figures for concerts by structurally subsidized orchestras and most ensembles are not structurally subsidized. According to representatives of branch organizations in the US and France, the market share of ensembles increased considerably in both France and the US as well.

⁵³ No systematic data exist on the development of ticket prices for these specific categories. I base this conclusion on interviews with directors of branch organizations in the US, France, and the Netherlands.

⁵⁴ In this way, a former autographic art form became allographic. Cf. Goodman (1954) 113-123.

⁵⁵ Smithuijsen (1991).

⁵⁶ Cf. Seaman (2004).

⁵⁷ In the Netherlands, the first internationally renowned economist to do some studies on the arts was Jan Pen. He quite openly showed off that he was a man of culture contrary to his dull colleagues in economics, the philistines as he called them. (I still admire him for his honesty.)

⁵⁸ William Baumol and Hans Abbing are professional visual artists, Alan Peacock composes, Jan Pen makes music and paints, Mark Blaug is an outspoken art lover and his wife, the first lady of Cultural Economics, Ruth Towse started off as an opera singer.

⁵⁹ The notion of primary qualities can be traced back to Locke. For the classical economists Smith and Ricardo, primary qualities and their value rest on labor. Cf Dolfisma (1999) 86-9

⁶⁰ In practice standard economists have found ways around this basic shortcoming, but these ‘solutions’ are artificial and inadequate, because they are at odds with the basic assumptions of neo-classical economics. Only institutional economics, conventions economics, and other ‘heretic’ forms of economics as well as contemporary art history are historic and able to handle change.

⁶¹ Doorman (2004).

⁶² Dolfisma (1999) 62.

⁶³ ‘The-work-itself’ is the title of Becker (1999).

⁶⁴ For instance, of all the paintings that were displayed in the Netherlands during the Golden Age, less than one percent have survived to the present day. Woude (1987) 309.

⁶⁵ Several slightly different interpretations exist in standard art history. Being an economist I like the logically and systematically constructed interpretation of Goodman (1954) best.

⁶⁶ Cf. Goodman (1954) 113–23.

⁶⁷ Directors hardly ever follow the written instructions of Stravinsky’s scores with respect to beat and rhythm. And when one watches the movie version of *Romeo and Juliet* by Bas Lührmann with Leonardo DiCaprio playing Romeo, it is only after a while that one starts to notice that one is watching a pretty accurate version of

Shakespeare's work because the actors use the original text. Nevertheless, most Shakespeare lovers prefer stage versions, even when Shakespeare's language has been modernized and ^{changed} in order to bring across a message that fits our times and contemporary problems.

⁶⁸ This is certainly the case since the publication of *Art Worlds* by Howard Becker (1982).

⁶⁹ Smith (1988) 32. Writing about the role of interpretation, the philosopher Danto (1986) 26-43 comes to a similar conclusion.

⁷⁰ Peacock (1996) shows that there is a striking resemblance between Baumol's theory of unbalanced growth and Malthus's theory. Both treat exponential forms of growth that lead to destruction.

⁷¹ I use single quotation marks because ultimately both economic and cultural factors are social as well and thus subsets of social factors in a broad sense. In the book I am presently writing in collaboration with the sociologist Sacha Kagan, Abbing and Kagan (2007), we attempt to get some grip on the issue of the relative importance of economic factors as opposed to social and cultural factors for the explanation of artistic development in various art forms.

⁷² Cf. Seaman (2004)